

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 EB-07 ISO-00 OIC-02 AID-05 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 IO-10 NEA-09 NSAE-00

OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01 OMB-01

AGR-05 STR-01 L-02 SSO-00 INRE-00 NSCE-00 USIE-00

/083 W

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O R 120525Z MAR 75

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC IMMEDIATE 9327

OECD MISSION PARIS IMMEDIATE 342

INFO AMEMBASSY CANBERRA

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E.O. 11652: N/A

TAGS: ETRD, OECD, NZ

SUBJECT: OECD REVIEW OF NEW ZEALAND TRADE POLICY

REF: A. STATE 49995

B. STATE 45865

C. OECD PARIS 4687

1. AS REQUESTED REF A EMBASSY'S COMMENTS AND OBSERVATIONS ON NEW ZEALAND TRADEPOLICY ARE SUBMITTED FOR THE OECD TRADE POLICY REVIEW. (SECRETARIAT NOTE TFD/TD/818 WAS RECEIVED TOO LATE TO PERMIT A THOROUGH STUDY FOR COMMENT.)

2. NZ'S BALANCE OF PAYMENTS CURRENT ACCOUNT DIFICIT WILL LIKELY EXCEED \$NZ 1 BILLION BY THE MARCH 1975 YEAR. THIS IS DUE MOSTLY TO INCREASED IMPORT PAYMENTS. IMPORT ORDERS HAVE RECENTLY SHOWN A CONSIDERABLE DECLINE. THE EXTENT TO WHICH THIS IS ATTRIBUTABLE TO DIRECT GNZ MEASURES TO RESTRICT IMPORT ORDERS BY SUCH ACTIONS AS NOT ISSUING IMPORT LICENSES

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IS NOT CLEAR. A DOWN-TURN IN INVESTMENT PLANS OF NZ

INDUSTRIAL ENTERPRISES BECAUSE OF CONCERN OVER THE INTERNATIONAL ECONOMIC SITUATION AND FALLING BUSINESS CONFIDENCE HAS PLAYED A ROLE. CONTINUED TIGHT MONETARY LIQUIDITY HAS CONTRIBUTED TO DECISIONS TO CUT BACK IN INVESTMENT. HENCE IMPORT ORDERS FOR PLANT AND MACHINERY HAVE FALLEN.

3. THE RECENT INTERIM GNZ MEASURES TO BOLSTER THE LAGGING FARMING SECTOR HAVE AIMED AT REDUCING SOME FARMERS PRODUCTION COSTS (E.&. SUBSIDIZING FERTILIZERS) AND GUARANTEEING A MINIMUM PRICE TO THE FARMER FOR CERTAIN EXPORT COMMODITIES, E G MEAT AND WOOL BY MAINTAINING A FLOOR PRICE. GNZ IS KNOWN TO BE VERY INTERESTED IN ESTABLISHING A FARM INCOME STABILIZATION SCHEME. DETAILS OF THE RECENTLY COMPLETED ZANETTI REPORT HAVE NOT YET BEEN ANNOUNCED BUT IT IS UNDERSTOOD THE MINISTER OF AGRICULTURE HAS THE REPORT AND IS STUDYING IT. IT HAS BEEN REPORTED THAT GNZ INTENDS TO START DISCUSSIONS WITH PRODUCER AND MARKETING BOARDS SOON IN ORDER TO TERMINATE THEM BY JUNE AND PRESENT DRAFT LEGISLATION TO THIS SESSION OF PARLIAMENT. IT WOULD APPEAR GNZ WISHES TO PUSH ITS PRICE STABILIZATION SCHEME THROUGH NOW WHEN THE FARMING SECTOR NEEDS HELP SO IT WILL BE IN EFFECT WHEN EXPORT PRICES RISE AND FARMERS RESISTANCE TO STABILIZATION SCHEMES GROWS. WHETHER THE SCHEME WILL HAVE SOME FORM OF INPUT SUBSIDIES OR /AND PRICE SUPPORT IS NOT KNOWN YET. GNZ DELEGATE MIGHT BE QUERIED ON THIS.

4. THE ATTEMPTED "TAKEOVER" BY KRAFT FOODS OF BUTLANDS, THE NZ CHEESE MANUFACTURING FIRM (REFTEL A) IS APPARENTLY A DEAD ISSUE. KRAFT REPORTEDLY HAS ANNOUNCED ITS DECISION NOT TO PERSIST IN ITS EFFORTS. THE PRINCIPAL PROBLEM IN THIS CASE SURROUNDED SENSITIVENESS BY THE LABORING AND FARMING SECTORS TO FOREIGN CONTROL OF A KEY ACTIVITY (CHEESE INDUSTRY) IN A VITAL SECTOR (DAIRYING) OF THE ECONOMY OF NZ. NATIONALISM PLAYED AN IMPORTANT ROLE IN STOPPING THIS MOVE. GNZ FAVORED THE ACTION AND THE NON-GOVERNMENT DAIRY BOARD, THOUGH PREFERRING TO HAVE AN OPPORTUNITY ALSO TO LIMITED OFFICIAL USE

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PARTICIPATE, ACQUIESCED. EMBASSY SEES THIS EXPERIENCE LESS AS A TRUE EXAMPLE OF ANTI-FOREIGN INVESTMENT CLIMATE THAN AN EXAMPLE OF POOR PUBLIC RELATIONS WHICH ALLOWED ACTIVISTS TO FAN A LATENT ANTI-FOREIGN CONTROL AND NATIONAL PRIDE BIAS (WHAT CAN KRAFT DO THAT WE CAN'T) AMONG DIFFERENT SECTORS OF THE COMMUNITY INTO DETERMINED OPPOSITION. DURING THIS PERIOD OF RESISTANCE TO KRAFT TAKEOVER OTHER FOREIGN INVESTMENT INITIATIVES CONTINUED

RELATIVELY UNHAMPERED.

5. ANOTHER ASPECT OF GNZ FOREIGN INVESTMENT AND TRADE POLICY WHICH HAS BECOME INCREASINGLY EVIDENT IS DIRECT GOVERNMENT INVOLVEMENT IN THESE ACTIVITIES. TWO GOOD EXAMPLES ARE (1) PETROLEUM EXPLORATION AND (2) OVERSEAS TRADE. THERE IS A PETROLEUM BILL BEFORE PARLIAMENT WHICH WILL AUTHORIZE MUCH GREATER DIRECT GOVERNMENT PARTICIPATION IN EXPLORATION AS WELL AS EXPLOITATION. ALSO THE RENEWAL OF EXPLORATION LICENSES INCLUDES A 40 PERCENT GOVERNMENT FINANCIAL PARTICIPATION COMMITMENT IN EXPLORATION COSTS IN RETURN FOR A 51 PER CENT INTEREST IN THE DEVELOPMENT OF ANY SUCCESSFUL DISCOVERY.

6. THE TREND APPEARS TO BE TOWARD STATE INVOLVEMENT IN A GROWING VARIETY OF INTERNATIONAL TRADE RELATED ACTIVITIES. THE CREATION OF THE NZ EXPORT/IMPORT CORPORATION TO ENGAGE IN OVERSEAS TRADE EITHER ON ITS OWN BEHALF OR ON BEHALF OF NZ MANUFACTURERS, PRODUCERS, EXPORTERS, IMPORTERS OR PERSONS DEALING IN SERVICES (ITEM 201 OF SEC. NOTE TFO/TD/818) AND THE MOVE TO HAVE THE MANGEMENT OF THE WELLINGTON CONTAINER TERMINAL TAKEN OVER BY THE STATE-OWNED NEW ZEALAND SHIPPING CORPORATION ARE EXAMPLES OF DIRECT GNZ INVOLVEMENT IN SUCH TRADE ACTIVITIES. THE CONTAINER TERMINAL IS AT PRESENT OPERATED BY A PRIVATE NZ ENTITY WHICH IS 25 PERCENT OWNED BY TWO FOREIGN CONTAINER SHIPPING LINES. THE NZ SHIPPING CORPORATION, WHICH ITSELF WAS CREATED BY THE GOVERNMENT ABOUT ONE YEAR AGO TO OWN AND OPERATE SHIPS IN THE NZ TRADE, WILL OPERATE THE TERMINAL. THIS ACTION, AS STATES BY THE GNZ MINISTER OF TRANSPORT, REFLECTS THE GOVERNMENT'S DESIRE TO HAVE THE CONTROL OF THIS IMPORTANT TRANSPORT FACILITY IN THE LIMITED OFFICIAL USE

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HANDS OF ONE OF ITS OWN AGENCIES. IT IS NOT TO BE UNEXPECTED THAT AS GOVERNMENT CONTROL IS EXTENDED IN THE TRADE FIELDS THE TEMPTATION AND PRESSURE TO DIVERT THE USE BY OTHER NZ (ESPECIALLY GOVERNMENT) ENTERPRISES AWAY FROM COMPETING TRADE SERVICES TO GOVERNMENT OPERATED ONEW WILL GROW.

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7. GNZ IS ACTIVELY SEEKING TO DIVERSIFY ITS EXPORTS AND ITS EXPORT MARKETS. EMPHASIS HAS BEEN PLACED ON MANUFACTURED AND FORESTRY PRODUCT EXPORTS TO REDUCE DEPENDENCE ON PRIMARY EXPORTS. EFFORT HAS BEEN EXERTED IN DEVELOPING OR EXPANDING MARKETS IN SUCH DIVERSE PARTS OF THE WORLD AS CHINA (LONG TERM) LATIN AMERICA AND SOUTH EAST ASIA (MORE MIDDLE TERM) AND THE MIDDLE EAST (SHORT TERM). IT IS ALSO TRYING TO MAINTAIN AND/OR EXPAND EXISTING MARKETS, (UK, JAPAN AND THE US). THIS ENERGETIC TRADE EXPANSION POLICY SHOULD CERTINLY POINT TO ACTIVE GNZ PARTICIPATION IN THE MTN.

8. ON THE IMPORT SIDE, GNZ IS PURSUING A LONGER TERM POLICY OF INDUSTRIAL RATIONALIZATION AIMED AT EVENTUALLY PHASING OUT RELATIVELY INEFFICIENT OR INDUSTRIES WITH LOW PRODUCTIVITY AND EXPANDING OTHERS THAT ARE MORE VIABLE, ESPECIALLY THOSE WITH EXPORT POTENTIAL. MANY OF THE EXPORT EXPANSION INCENTIVES CITED ON PAGES 66 THROUGH 72 IN THE SEC. NOTE POINT UP THIS

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POLICY.

9. THOUGH IN THE SHORT RUN THERE MAY BE SOME INCREASE

IN TRADE RESTRICTIONS DURING THE CURRENT EXTREMELY DIFFICULT BALANCE OF PAYMENTS SITUATION, IT IS EVIDENT THAT GNZ CLEARLY RECOGNIZES THE IMPORTANCE OF A GENERALLY INCREASINGLY LIBERAL TRADE POLICY. THIS IS NOT TO SAY, HOWEVER, THAT THERE WILL BE SPECIFIC CASES OF RESTRICTIVE MEASURES ESPECIALLY WHERE ADVANTAGES ARE IN NEW ZEALAND'S FAVOR OR THE DISADVANTAGES OF FOLLOWING A LIBERAL POLICY ARE TOO GREAT.

10. RE ITEM 140 OF SEC. NOTE THE IMPORT LICENSING SCHEDULE FOR THE PERIOD 1975-76 WILL BE ANNOUNCED APRIL 3 BY THE MINISTER OF TRADE AND INDUSTRY. THOUGH GNZ HAS BEEN CAREFUL TO AVOID GIVING ANY ADVANCE HINT, IT IS GENERALLY BRUITED AROUND THAT THERE WILL BE A CONSIDERABLE TIGHTENING UP OF IMPORT LICENSES FOR THE FORTHCOMING PERIOD IN AN EFFORT TO CURB IMPORTS FURTHER.

11. THE GNZ HAS SO FAR AVOIDED IMPOSING ANY RESTRICTIONS ON FUNDS FOR OVERSEAS TRAVEL BY NEW ZEALANDERS, BUT THERE ARE RUMORS THAT THE GOVERNMENT IS ABOUT TO TIGHTEN REGULATIONS ON THIS USE OF FOREIGN EXCHANGE.

12. IT IS REASONABLE TO EXPECT THAT LICENSING, AS WELL AS IMPORT DUTIES, WILL CONTINUE TO BE A PART OF GNZ SYSTEM FOR PROTECTING ESPECIALLY ITS INDUSTRIAL SECTOR FOR A CONSIDERABLE TIME YET, THOUGH IN THE LONGER TERM THERE SHOULD BE A SHIFT AWAY FROM LICENSING WHEREVER THIS IS DEEMED SAFE IN FAVOR OF IMPORT DUTY PROTECTION. IT SHOULD BE NOTED THAT A RELATIVELY LARGE SHARE OF LICENSED IMPORT ITEMS (PLANT AND EQUIPMENT AND MATERIALS FOR MANUFACTURING) ARE DESTINED FOR INDUSTRIAL USERS. ONE INFORMED OBSERVER HAS ESTIMATED THAT AS MUCH AS 80 PERCENT OF THE 25 PERCENT OF LICENSED IMPORTS FALL IN THIS CATEGORY. THEREFORE, ANY MOVE BY GNZ TO TIGHTEN LICENSING CAN BE HARMFUL TO ITS INDUSTRIAL SECTOR. THEREFORE THE CAPABILITY OF THE GOVERNMENT TO CONTROL IMPORTS THROUGH LICENSING IS DECREASING.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE, POLICIES, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 12 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975WELLIN00664
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750086-0119
From: WELLINGTON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750356/aaaabyrn.tel
Line Count: 267
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 STATE 49995
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 13 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 MAY 2003 by ElyME>; APPROVED <19 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OECD REVIEW OF NEW ZEALAND TRADE POLICY
TAGS: ETRD, NZ, OECD
To: STATE OECD PARIS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006